

Update: Report Q2 2020

2020-08-24

## Heliospectra: Pandemic taking its toll

- Both sales and order intake are hit hard by the pandemic
- We anticipate another capital injection in Q1 or sooner
- We lower our valuation interval to SEK 5.00 – 7.50 per share

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Stock ticker:	HELIO
Industry:	Electrical equipment
Listed on:	Nasdaq First North
Latest stock price (SEK):	4,03
Market cap (MSEK):	226,4
Enterprise Value (MSEK):	181,4
Total number of shares (M):	56,18
- of which free float (M):	18,71

### VHCF fair value per share

DCF model SEK 5,00 - 7,50

### Heliospectra AB

Address: Fiskhammsgatan 2  
414 58 Göteborg

Webpage: heliospectra.com

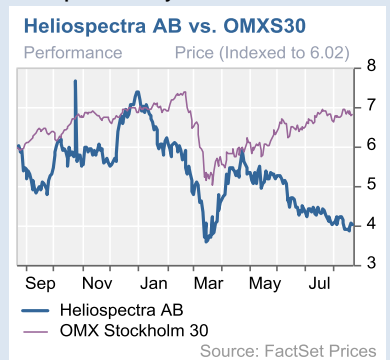
CEO: Ali Ahmadian

### Main owners (30 Jun 2020)

Capital (%)

Weland Värdepapper AB	22,5
Weland Stål AB	18,6
ADMA Förvaltnings AB	14,2
Midroc New Technology AB	11,5
Avanza Pension	3,4

### Stock price history



	-1m	-3m	-12m
Change (%)	-9,3	-22,6	-32,8
52 w k range (Low /Hi) - SEK		3,50 / 8,31	

Source: FactSet

Last Friday, Heliospectra presented its Q2 report and it stands clear that the company is hit hard from the ongoing pandemic. The company's two huge orders that were announced in Q4 are still pending and both the sales and order intake are markedly subdued. The company is taking measures to bring down operational costs, but we think the company will face tough times in the near future, not least with regards to the capital situation. We therefore lower our valuation interval to SEK 5.00 – 7.50 per share.

The corona crisis has taken a heavy toll on Heliospectra, and the company does not mention that the current market climate is improving, indicating that Q3 might not show any positive surprises. Since the beginning of the year, the company has increased its brand recognition through its digital marketing strategy, including a webinar series that has reached a big audience resulting in leads for new customers. When the market starts to regain momentum, Heliospectra has a strong potential to quickly expand its sales effort. However, the pandemic is still ongoing and for now it's uncertain when the tide will turn.

Comparing the outcome of the quarter with our expectations, there are several differences to comment on. Firstly, we had foreseen a sales figure of SEK 17 million, but the actual figure came in at just short of SEK 5 million. This is down 35 percent y/y and tells a story of how much the company has been hit by the corona crisis. We had foreseen that parts of the Bridge Farm Group order would be financially recognized during the quarter, but the pandemic is reducing the pace of fulfilment. Naturally, the COGS came in lower than expected due to lower sales. The reported gross margin came in at 21 percent, which is around half the figure we had expected for the quarter. The gross margin is at its lowest for several years and could be related to the increasing sales of the new MITRA LED-product.

**Table 1: Financial Overview**

MSEK	2 019	2020e	2021e	2022e	2023e
Total revenues	26,8	39,2	134,5	249,6	371,7
Growth (%)	(41,6%)	46,2%	242,8%	85,5%	49,0%
EBITDA	(47,7)	(42,5)	(21,0)	6,7	37,4
EBITDA margin (%)	neg	neg	neg	2,7%	10,1%
EBT	(51,7)	(46,2)	(24,5)	2,6	32,9
Cash holdings	54,2	1,0	7,2	12,0	37,2
Total assets	94,0	36,9	86,9	123,4	192,0
Total equity	60,7	14,4	14,9	17,5	50,4
Solidity (%)	64,6%	39,1%	17,1%	14,2%	26,2%
P/E	neg	neg	neg	87,2	6,9
ROE	neg	neg	neg	14,8%	65,3%
EV/EBIT (x)	neg	neg	neg	67,4	5,5
EV/Sales (x)	6,8	4,6	1,3	0,7	0,5

Source: Västra Hamnen Corporate Finance

### Cash reserves is taking a beating

The Personnel Expenses came in somewhat higher than expected. We had foreseen a decrease in this line item due to the short-term partial layoffs in Q2, but we might have over-estimated the accompanied cost savings. The Net Profit came in SEK 7 million lower than our estimate which is draining the Cash and Equivalents. However, due to a reduction in working capital, the Cash and Equivalents only decreased by SEK 2 million, and now stands at SEK 26 million. With the current burn-rate we believe that the cash reserves will be depleted somewhere between Q4 and Q1 2021.

**Table 2: Estimates vs actual, Q2 2020**

kSEK	Q2 '19	Q2 '20e	Q2 '20 act	Diff
Net Revenues	7 087	17 036	4 674	(12 362)
Other Revenues	151	0	22	22
<b>Total Revenues</b>	<b>7 238</b>	<b>17 036</b>	<b>4 696</b>	<b>(12 340)</b>
Cost of Goods Sold	(3 719)	(10 218)	(3 693)	6 525
Personnel Expenses	(7 891)	(6 750)	(8 172)	(1 422)
Other Operating Expenses	(6 080)	(5 400)	(4 940)	460
<b>Total OPEX</b>	<b>(17 690)</b>	<b>(22 368)</b>	<b>(16 805)</b>	<b>5 563</b>
<b>EBITDA</b>	<b>(10 452)</b>	<b>(5 332)</b>	<b>(12 109)</b>	<b>(6 777)</b>
Amortisation and Depreciation	(959)	(787)	(1 075)	(288)
<b>EBIT</b>	<b>(11 411)</b>	<b>(6 119)</b>	<b>(13 184)</b>	<b>(7 065)</b>
Net Financial Items	(50)	(23)	47	70
<b>EBT</b>	<b>(11 461)</b>	<b>(6 142)</b>	<b>(13 137)</b>	<b>(6 995)</b>
<b>Net Profit</b>	<b>(11 461)</b>	<b>(6 142)</b>	<b>(13 137)</b>	<b>(6 995)</b>
Cash and Equivalents	29 047	27 891	25 871	(2 020)
Total Equity	43 776	45 453	38 397	(7 056)

Source: Västra Hamnen Corporate Finance

### Several trends can play in Heliospectras favor

The company is hit hard by the pandemic. As can be seen in Figure 1 below, sales, order intake and gross margin are all at or close to their five-year lows. However, we believe that this downwards facing trend could change quickly for the following reasons:

- Food growers faced an increase in demand during the beginning of the pandemic and many therefore put their investments to a halt. The time might come for them to use their finances to expand their operations ahead.
- Companies in the lighting industry are all facing stressful times, and the weakest players might be pushed out of the market. Not only will Heliospectra be able to prove its longevity but it might also see effects originating from decreased competition in the market.
- The successful webinar series have reached a huge crowd of potential customers. We recognize the future potential from these leads.
- The pandemic might push countries into becoming more self-reliant and vertical farming can play a role in this transition, which can play in the hands of Heliospectra.
- Lastly, in the light of the pandemic the company has restructured the organization and shifted towards a market driven management strategy, i.e. looking at the needs in the market, and thereafter tailoring their offering in alignment with this.

**Figure 1: Sales, order intake and gross margin**



Source: Heliospectra, Västra Hamnen calculations

**We revise our near-term sales forecast**

The pandemic has hit the company hard in the near term, but the long-term outlook might have improved as stated above. However, the company’s lead times are long and even if the market situation starts to improve, it will take time before results are realized in the income statement. With respect to this we have again revised our near-term sales forecast and lowered the expected sales in the coming quarters. We have also postponed the two major orders the company received in Q4, and we now expect the company to begin delivering the SEK 12 million order to Bridge Farm Group in Q4, and the SEK 72 million order to Nectar farms early next year, which is a postponement of half a year for both orders.

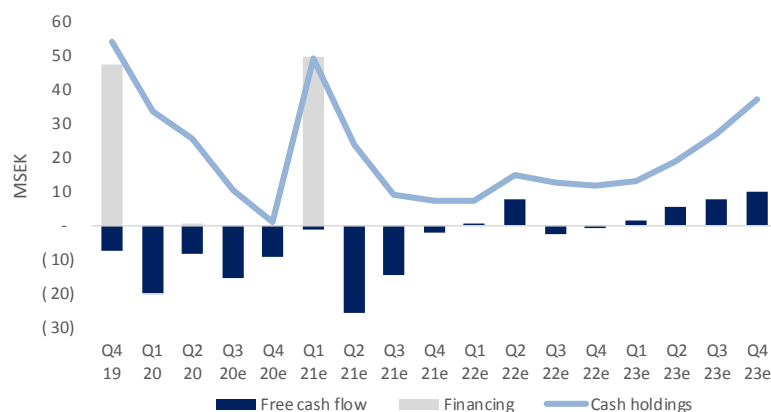
**We increase the risk-adjustment of the Nectar Farms order**

We also believe that the uncertainty regarding the Nectar Farms order has increased and the outcome is highly dependent on how the pandemic will progress. The state of Victoria, Australia (where Nectar Farms is located) is experiencing a worsening of the corona situation with increasing confirmed cases and new lockdown measures are being imposed. To compensate for this development, we have increased the previous risk-adjustment of the order to 60 percent, up from previous 50 percent. If the order goes through as we have assumed, Heliospectra will receive the down payment in Q1, and the first part of the order will be delivered in Q2.

**We foresee a 50 MSEK capital increase in Q1**

As can be seen in Figure 2 below, the cash reserves are quickly depleting during these stressful times and we expect the cash holdings to barely stay positive during Q4. However, if the down payment from Nectar Farms is paid in in Q4, the financial situation might change quickly. To make sure that the cash balance remains positive in our economic scenario we have included a SEK 50 million capital increase in Q1. Our previous scenario contained a SEK 25 million capital increase in Q2. The company has been granted financial support both in Sweden and in Canada, but since we don’t know the size of the support, we have chosen to overlook this aid for now, and lean towards the company having to provide financial means itself. **After updating our valuation model with the latest adjustments, it is now pointing at a lower value than before and we consequently lower our valuation interval to SEK 5.00 – 7.50 per share.**

Figure 2: Cash flow and cash holdings



Source: Västra Hamnen Corporate Finance

## Income Statement - Annual Data

kSEK	2018	2019	2020e	2021e	2022e	2023e	2024e	2025e
Net revenues	45 370	25 530	39 166	134 525	249 560	371 730	480 065	561 201
Other revenues	615	1 310	72	-	-	-	-	-
<b>Total revenues</b>	<b>45 985</b>	<b>26 840</b>	<b>39 238</b>	<b>134 525</b>	<b>249 560</b>	<b>371 730</b>	<b>480 065</b>	<b>561 201</b>
Cost of goods sold	(30 057)	(14 555)	(22 622)	(83 911)	(159 105)	(238 543)	(306 918)	(356 780)
Personnel costs	(23 854)	(33 873)	(34 267)	(37 676)	(44 079)	(50 405)	(55 115)	(58 387)
Other external costs	(22 481)	(25 627)	(24 201)	(33 908)	(39 671)	(45 365)	(49 603)	(52 548)
Other operating expenses	(120)	(496)	(640)	-	-	-	-	-
<b>EBITDA</b>	<b>(30 527)</b>	<b>(47 711)</b>	<b>(42 492)</b>	<b>(20 969)</b>	<b>6 705</b>	<b>37 417</b>	<b>68 429</b>	<b>93 486</b>
Amortisation & depreciation	(2 725)	(3 832)	(3 665)	(3 473)	(4 016)	(4 458)	(4 818)	(5 112)
<b>EBIT</b>	<b>(33 252)</b>	<b>(51 543)</b>	<b>(46 157)</b>	<b>(24 442)</b>	<b>2 689</b>	<b>32 959</b>	<b>63 611</b>	<b>88 374</b>
Financials, net	(52)	(133)	5	(93)	(93)	(93)	(93)	(93)
<b>EBT</b>	<b>(33 304)</b>	<b>(51 676)</b>	<b>(46 152)</b>	<b>(24 535)</b>	<b>2 596</b>	<b>32 866</b>	<b>63 518</b>	<b>88 281</b>
Taxes	-	-	-	-	-	-	-	-
<b>Net profit</b>	<b>(33 304)</b>	<b>(51 676)</b>	<b>(46 152)</b>	<b>(24 535)</b>	<b>2 596</b>	<b>32 866</b>	<b>63 518</b>	<b>88 281</b>
<b>Earnings per share (SEK)</b>	<b>(1,30)</b>	<b>(1,11)</b>	<b>(0,83)</b>	<b>(0,38)</b>	<b>0,04</b>	<b>0,51</b>	<b>0,98</b>	<b>1,37</b>
<b>Growth (%)</b>								
Net revenues	na	na	na	na	na	na	na	na
EBITDA	na	na	na	na	na	458,1%	82,9%	36,6%
EBIT	na	na	na	na	na	1125,6%	93,0%	38,9%
Net profit	na	na	na	na	na	1165,8%	93,3%	39,0%
<b>% of revenues (%)</b>								
EBITDA margin	neg	neg	neg	neg	2,7%	10,1%	14,3%	16,7%
EBIT margin	neg	neg	neg	neg	1,1%	8,9%	13,3%	15,7%
EBT margin	neg	neg	neg	neg	1,0%	8,8%	13,2%	15,7%
Profit margin	neg	neg	neg	neg	1,0%	8,8%	13,2%	15,7%
Personnel costs	52,6%	132,7%	87,5%	28,0%	17,7%	13,6%	11,5%	10,4%
Total OPEX	102,4%	235,0%	150,9%	53,2%	33,6%	25,8%	21,8%	19,8%
<b>Profitability (%)</b>								
ROE	neg	neg	neg	neg	6,1%	43,6%	45,7%	38,9%
ROIC	neg	neg	neg	neg	5,3%	54,6%	106,4%	144,3%
ROCE	neg	neg	neg	neg	4,1%	30,6%	33,7%	29,4%

Source: Västra Hamnen Corporate Finance

**Balance Sheet - Annual Data**

kSEK	2018	2019	2020e	2021e	2022e	2023e	2024e	2025e
Inventories	5 499	15 931	9 080	20 427	30 385	44 595	54 067	61 411
Short term receivables	6 869	7 150	10 603	40 129	59 439	86 756	106 003	120 945
Cash and cash equivalents	11 165	54 243	985	7 230	12 011	37 156	101 141	188 286
<b>Total current assets</b>	<b>23 533</b>	<b>77 324</b>	<b>20 668</b>	<b>67 786</b>	<b>101 836</b>	<b>168 507</b>	<b>261 212</b>	<b>370 643</b>
Tangible assets	1 309	2 125	2 257	3 323	4 190	4 897	5 472	5 941
Intangible assets	15 316	14 548	13 961	15 824	17 340	18 576	19 582	20 401
<b>Total fixed assets</b>	<b>16 625</b>	<b>16 673</b>	<b>16 219</b>	<b>19 146</b>	<b>21 530</b>	<b>23 472</b>	<b>25 054</b>	<b>26 343</b>
<b>Total assets</b>	<b>40 158</b>	<b>93 997</b>	<b>36 887</b>	<b>86 933</b>	<b>123 366</b>	<b>191 979</b>	<b>286 266</b>	<b>396 985</b>
Accounts payable	6 035	-	4 072	15 104	28 639	42 938	55 245	64 220
Short term liabilities	8 566	24 110	9 108	22 656	42 958	64 407	82 868	96 331
<b>Total current liabilities</b>	<b>14 601</b>	<b>24 110</b>	<b>13 180</b>	<b>37 760</b>	<b>71 597</b>	<b>107 344</b>	<b>138 113</b>	<b>160 551</b>
<b>Long term liabilities</b>	<b>9 800</b>	<b>9 200</b>	<b>9 273</b>	<b>9 273</b>	<b>9 273</b>	<b>9 273</b>	<b>9 273</b>	<b>9 273</b>
<b>Other provisions</b>	<b>550</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>	<b>15 207</b>	<b>60 687</b>	<b>14 435</b>	<b>39 900</b>	<b>42 496</b>	<b>75 362</b>	<b>138 880</b>	<b>227 161</b>
<b>Total equity and liabilities</b>	<b>40 158</b>	<b>93 997</b>	<b>36 887</b>	<b>86 933</b>	<b>123 366</b>	<b>191 979</b>	<b>286 266</b>	<b>396 985</b>

Source: Västra Hamnen Corporate Finance

**Cash flow statement**

kSEK	2018	2019	2020e	2021e	2022e	2023e	2024e	2025e
Operating activities	(30 359)	(47 776)	(42 638)	(21 062)	6 612	37 324	68 336	93 393
Changes in working capital	4 771	(1 754)	(7 532)	(16 293)	4 569	(5 780)	2 049	152
Investing activities	(3 280)	(4 066)	(3 211)	(6 400)	(6 400)	(6 400)	(6 400)	(6 400)
Financing activities	(600)	96 647	124	50 000	-	-	-	-
<b>Cash flow for the period</b>	<b>(29 468)</b>	<b>43 078</b>	<b>(53 258)</b>	<b>6 245</b>	<b>4 782</b>	<b>25 144</b>	<b>63 985</b>	<b>87 145</b>
Beginning cash balance	40 633	11 165	54 243	985	7 230	12 011	37 156	101 141
<b>Ending cash balance</b>	<b>11 165</b>	<b>54 243</b>	<b>985</b>	<b>7 230</b>	<b>12 011</b>	<b>37 156</b>	<b>101 141</b>	<b>188 286</b>

Source: Västra Hamnen Corporate Finance

## Income Statement - Quarterly Data

kSEK	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020e	Q4 2020e	Q1 2021e	Q2 2021e
Net revenues	6 002	2 784	15 200	4 674	6 391	12 901	19 247	25 169
Other revenues	1 009	150	50	22	-	-	-	-
<b>Total revenues</b>	<b>7 011</b>	<b>2 934</b>	<b>15 250</b>	<b>4 696</b>	<b>6 391</b>	<b>12 901</b>	<b>19 247</b>	<b>25 169</b>
Cost of goods sold	(3 865)	(1 619)	(7 947)	(3 693)	(3 256)	(7 725)	(11 559)	(15 100)
Personnel costs	(9 629)	(9 552)	(9 031)	(8 172)	(8 521)	(8 543)	(8 816)	(9 343)
Other external costs	(4 815)	(8 931)	(6 576)	(3 974)	(6 817)	(6 834)	(7 934)	(8 409)
Other operating expenses	67	(378)	326	(966)	-	-	-	-
<b>EBITDA</b>	<b>(11 231)</b>	<b>(17 546)</b>	<b>(7 978)</b>	<b>(12 109)</b>	<b>(12 204)</b>	<b>(10 201)</b>	<b>(9 063)</b>	<b>(7 683)</b>
Amortisation & depreciation	(970)	(956)	(1 079)	(1 075)	(737)	(775)	(811)	(850)
<b>EBIT</b>	<b>(12 201)</b>	<b>(18 502)</b>	<b>(9 057)</b>	<b>(13 184)</b>	<b>(12 940)</b>	<b>(10 976)</b>	<b>(9 874)</b>	<b>(8 533)</b>
Financials, net	(18)	(11)	4	47	(23)	(23)	(23)	(23)
<b>EBT</b>	<b>(12 219)</b>	<b>(18 513)</b>	<b>(9 053)</b>	<b>(13 137)</b>	<b>(12 963)</b>	<b>(10 999)</b>	<b>(9 897)</b>	<b>(8 556)</b>
Taxes	-	-	-	-	-	-	-	-
<b>Net profit</b>	<b>(12 219)</b>	<b>(18 513)</b>	<b>(9 053)</b>	<b>(13 137)</b>	<b>(12 963)</b>	<b>(10 999)</b>	<b>(9 897)</b>	<b>(8 556)</b>
<b>Earnings per share (SEK)</b>	<b>(0,26)</b>	<b>(0,33)</b>	<b>(0,16)</b>	<b>(0,24)</b>	<b>(0,23)</b>	<b>(0,20)</b>	<b>(0,15)</b>	<b>(0,13)</b>
<b>Y-o-Y Growth (%)</b>								
Net revenues	na	na	na	na	na	na	na	na
EBITDA	na	na	na	na	na	na	na	na
EBIT	na	na	na	na	na	na	na	na
Net profit	na	na	na	na	na	na	na	na
<b>% of revenues (%)</b>								
EBITDA margin	neg	neg	neg	neg	neg	neg	neg	neg
EBIT margin	neg	neg	neg	neg	neg	neg	neg	neg
EBT margin	neg	neg	neg	neg	neg	neg	neg	neg
Profit margin	neg	neg	neg	neg	neg	neg	neg	neg
Personnel costs	160,4%	343,1%	59,4%	174,8%	133,3%	66,2%	45,8%	37,1%
Total OPEX	239,5%	677,5%	100,5%	280,5%	240,0%	119,2%	87,0%	70,5%
<b>Profitability (%)</b>								
ROE	neg	neg	neg	neg	neg	neg	neg	neg
ROIC	neg	neg	neg	neg	neg	neg	neg	neg
ROCE	neg	neg	neg	neg	neg	neg	neg	neg

Source: Västra Hamnen Corporate Finance

**Balance Sheet - Quarterly Data**

kSEK	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020e	Q4 2020e	Q1 2021e	Q2 2021e
Inventories	11 010	15 931	13 029	12 474	11 141	9 080	7 601	9 929
Short term receivables	12 370	7 150	17 009	9 409	5 253	10 603	15 819	20 687
Cash and cash equivalents	13 863	54 243	33 933	25 871	10 251	985	49 588	23 820
<b>Total current assets</b>	<b>37 243</b>	<b>77 324</b>	<b>63 971</b>	<b>47 754</b>	<b>26 645</b>	<b>20 668</b>	<b>73 008</b>	<b>54 435</b>
Tangible assets	1 340	2 125	2 010	1 853	2 060	2 257	2 544	2 817
Intangible assets	14 865	14 548	13 735	12 877	13 433	13 961	14 463	14 940
<b>Total fixed assets</b>	<b>16 205</b>	<b>16 673</b>	<b>15 745</b>	<b>14 730</b>	<b>15 494</b>	<b>16 219</b>	<b>17 008</b>	<b>17 757</b>
<b>Total assets</b>	<b>53 448</b>	<b>93 997</b>	<b>79 716</b>	<b>62 484</b>	<b>42 139</b>	<b>36 887</b>	<b>90 016</b>	<b>72 193</b>
Accounts payable	12 653	-	-	-	2 973	4 072	4 722	6 775
Short term liabilities	-	24 110	19 070	14 814	4 459	9 108	21 483	10 163
<b>Total current liabilities</b>	<b>12 653</b>	<b>24 110</b>	<b>19 070</b>	<b>14 814</b>	<b>7 432</b>	<b>13 180</b>	<b>26 205</b>	<b>16 938</b>
<b>Long term liabilities</b>	<b>9 350</b>	<b>9 200</b>	<b>9 050</b>	<b>9 273</b>	<b>9 273</b>	<b>9 273</b>	<b>9 273</b>	<b>9 273</b>
<b>Other provisions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>	<b>31 446</b>	<b>60 687</b>	<b>51 595</b>	<b>38 397</b>	<b>25 434</b>	<b>14 435</b>	<b>54 538</b>	<b>45 981</b>
<b>Total equity and liabilities</b>	<b>53 449</b>	<b>93 997</b>	<b>79 715</b>	<b>62 484</b>	<b>42 139</b>	<b>36 887</b>	<b>90 016</b>	<b>72 193</b>

Source: Västra Hamnen Corporate Finance

**Cash flow statement**

kSEK	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020e	Q4 2020e	Q1 2021e	Q2 2021e
Operating activities	(11 204)	(17 612)	(8 016)	(12 171)	(12 227)	(10 224)	(9 086)	(7 706)
Changes in working capital	(2 342)	11 768	(11 997)	3 899	(1 893)	2 459	9 289	(16 462)
Investing activities	(1 280)	(1 435)	(151)	(60)	(1 500)	(1 500)	(1 600)	(1 600)
Financing activities	(358)	47 659	(146)	270	-	-	50 000	-
<b>Cash flow for the period</b>	<b>(15 184)</b>	<b>40 380</b>	<b>(20 310)</b>	<b>(8 062)</b>	<b>(15 620)</b>	<b>(9 266)</b>	<b>48 603</b>	<b>(25 768)</b>
Beginning cash balance	29 047	13 863	54 243	33 933	25 871	10 251	985	49 588
<b>Ending cash balance</b>	<b>13 863</b>	<b>54 243</b>	<b>33 933</b>	<b>25 871</b>	<b>10 251</b>	<b>985</b>	<b>49 588</b>	<b>23 820</b>

Source: Västra Hamnen Corporate Finance

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